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ABSTRACT

This instructor guide for a unit on location in the PACE (Program for Acquiring Competence in Entrepreneurship) curriculum includes the full text of the student module and lesson plans, instructional suggestions, and other teacher resources. The competencies that are incorporated into this module are at Level 3 of learning--starting and managing one's own business. Included in the instructor's guide are the following: unit objectives, guidelines for using PACE, lists of teaching suggestions for each unit objective/subobjective, model assessment responses, and overview of the three levels of the PACE program. The following materials are contained in the student's guide: activities to be completed in preparation for the unit, unit objectives, student reading materials, individual and group learning activities, case study, discussion questions, assessment questions, and references. These four objectives are addressed: select the most appropriate site for one's business; analyze one's business to determine site requirements; discuss the importance of site selection factors; and explain how to conduct a location feasibility study. (YLB)

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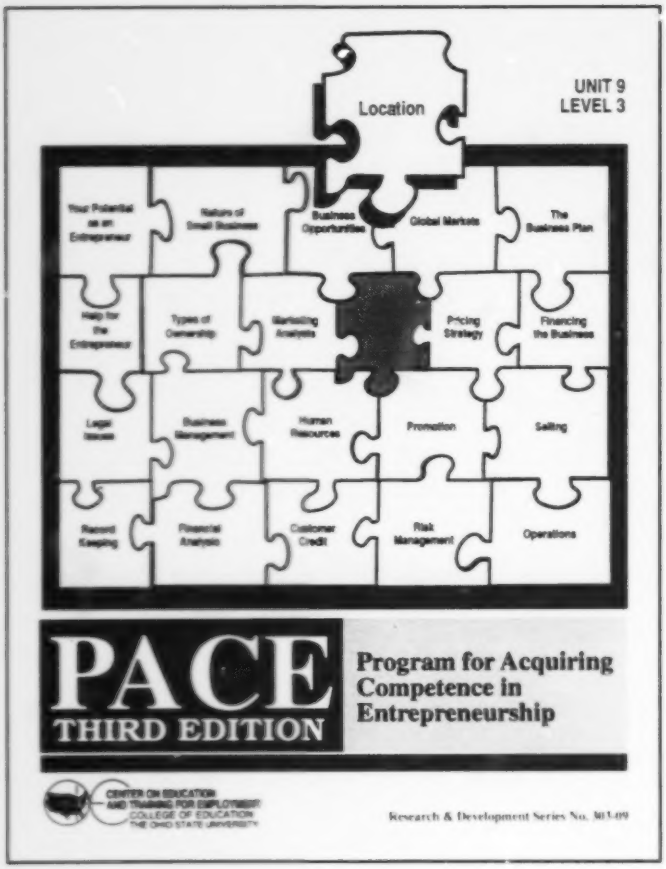

Objectives:

- Select the most appropriate site for your business.
- Analyze your business to determine site requirements.
- Discuss the importance of site selection factors.
- Explain how to conduct a location feasibility study.

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INSTRUCTOR GUIDE

Unit 9

Location

Level 3

HOW TO USE PACE

- Use the objectives as a pretest. If a student is able to meet the objectives, ask him or her to read and respond to the assessment questions in the back of the module.
- Duplicate the glossary from the *Resource Guide* to use as a handout.
- Use the teaching outlines provided in the *Instructor Guide* for assistance in focusing your teaching delivery. The left side of each outline page lists objectives with the corresponding headings (margin questions) from the unit. Space is provided for you to add your own suggestions. Try to increase student involvement in as many ways as possible to foster an interactive learning process.
- When your students are ready to do the *Activities*, assist them in selecting those that you feel would be the most beneficial to their growth in entrepreneurship.
- Assess your students on the unit content when they indicate they are ready. You may choose written or verbal assessments according to the situation. Model responses are provided for each module of each unit. While these are suggested responses, others may be equally valid.

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Objectives	Teaching Suggestions
1. SELECT THE MOST APPROPRIATE SITE FOR YOUR BUSINESS	
How important is the right business location?	Lead students in an open discussion on the importance of choosing the right location for their business. If some students have already been confronted with location decisions, have them share their own experiences with the class.
Should a business consider moving?	This is a good time to have students assess a popular topic. Moving a business is the kind of problem many entrepreneurs are faced with. Bring into discussion the North American Free Trade Agreement (NAFTA) and show its impact on small businesses. Gear the discussion toward what issues arise when businesses change location.
2. ANALYZE YOUR BUSINESS TO DETERMINE SITE REQUIREMENTS	
What specific factors should be considered when evaluating a business site?	Have students discuss how they perceive specific factors that affect business location. Divide the class into four groups and have them analyze specific factors that affect retailers, service firms, wholesalers, and manufacturers respectively.
3. DISCUSS THE IMPORTANCE OF SITE SELECTION FACTORS	
What general factors should be considered when evaluating a business location?	Use an overhead or chalkboard to list general factors that affect decisions related to business location. Help students understand how each of these factors influence the choice of business site (e.g., strong competition in the area means that you must offer a high-quality, competitively-priced product to be successful in that community, etc.).
What types of business locations are there?	Show a chart with planned and natural business clusters. Help students correctly define central shopping districts, shopping centers, industrial parks, etc. In order to assist students with learning these terms, it will be useful to use examples from the community.
What help is available for evaluating a business location?	Review sources of help for locating a business.

Objectives	Teaching Suggestions
4. EXPLAIN HOW TO CONDUCT A LOCATION FEASIBILITY STUDY	
How should a feasibility study be conducted?	Open the discussion by assessing the importance of a feasibility study. The fundamental idea behind feasibility studies is to ensure that the market can sustain the new business you want to open. Next, use an overhead or chalkboard to list the six steps to be taken when conducting this type of study. It would be very useful if a local real estate developer were invited to talk about how his/her company conducts these studies.

MODEL ASSESSMENT RESPONSES

1. Business location is vital because it directly influences the customer flow to the business. A poor location choice imposes a heavy burden on the small business owner, requiring additional efforts to attract clients to the business. Once the location is chosen entrepreneurs have to live with the consequences of their decisions for many years. Few businesses have the opportunity to choose a business site more than once.

2. Two categories of factors should be considered when choosing a business location. First, general factors, such as economics, population, competition, layout, and public transportation are to be assessed when selecting geographical areas. Second, factors specific to each type of business are to be evaluated. For example, population is a critical general factor for a geographical area. Population growth rates, population traffic (i.e., workforce moving in and out of the area), income trends, standard of living, and employment by type of industry are market demand drivers.

   Retailers evaluate factors specific to their business when choosing business sites. For example, parking facilities, accessibility (i.e., vicinity to major arteries), average daily traffic volume, and proximity to other businesses which draw customers are some considerations of retailers. Manufacturers must consider different factors than retailers. For manufacturing firms, closeness to suppliers and purchasers, layout, zoning ordinances, vicinity to highways, rail lines, airports, and utility hook-ups are critical location drivers.

3. When considering a business community for a potential location, economics, population, competition, layout and transportation issues must be evaluated. Even if the industry your business belongs to is well developed, you might still want to consider that community as a potential location. However, this means that you will need to offer a high-quality, upgraded product to successfully compete in that market. Usually, a well-established industrial base secures high employment rates. Union trends, local policies and ordinances, and the community's interest in supporting economic expansion are additional factors that need to be considered. Furthermore, population growth, income levels, standard of living, competition trends, transportation facilities and available layout are important factors that influence entrepreneurs when assessing the suitability of business site.

4. *Factory outlet malls* consist of discount and factory outlet stores carrying traditional manufacturers' brands. These malls provide manufacturers with additional inventory or overstock space. Usually, manufacturers operate their own outlets being careful not to infringe on retailers.

   Miniwarehouse malls are planned centers that sell space to wholesalers and some manufacturers and retailers that operate outside the warehouse mall area. As is the case with shopping malls, warehouse malls do not run coordinated promotional programs.

5. A feasibility study is conducted in six steps: (1) select a general area for consideration, (2) survey several areas within a state, (3) establish site selection criteria, (4) analyze the need to build, renovate, or redecorate, (5) analyze the need to lease, and (6) review the analysis and make final decisions.

   Selecting an area for consideration involves using information from personal experience and extensively consulting library materials. To avoid confusion, not more than three areas should be considered at a time. Next, this information is to be expanded to include economics, population, and competition considerations. Then, more specific site selection criteria are established, such as detailed local competition factors, public transportation, layout, compatibility with neighboring businesses, accessibility, taxes, daily traffic volume, zoning regulations, related costs, etc. After performing this detailed analysis, you should carefully assess the need to build versus expand, renovate, or redecorate the business site. Time, related costs, required capital, and lost profits should be estimated. Next, a thorough analysis of the lease terms and conditions should be undertaken. Finally, all the data available should be compiled and reviewed before making a final decision.

PACE
THIRD EDITION

Program for Acquiring Competence in Entrepreneurship

Incorporates the needed competencies for creating and operating a small business at three levels of learning, with experiences and outcomes becoming progressively more advanced.

Level 1 — Understanding the creation and operation of a business.
Level 2 — Planning for a business in your future.
Level 3 — Starting and managing your own business.

Self-contained **Student Modules** include: specific objectives, questions supporting the objectives, complete content in form of answers to the questions, case studies, individual activities, group activities, module assessment references. **Instructor Guides** include the full text of each student module and lesson plans, instructional suggestions, and other resources. **PACE, Third Edition, Resource Guide** includes teaching strategies, references, glossary of terms, and a directory of entrepreneurship assistance organizations.

For information on PACE or to order, contact the Publications Department at the
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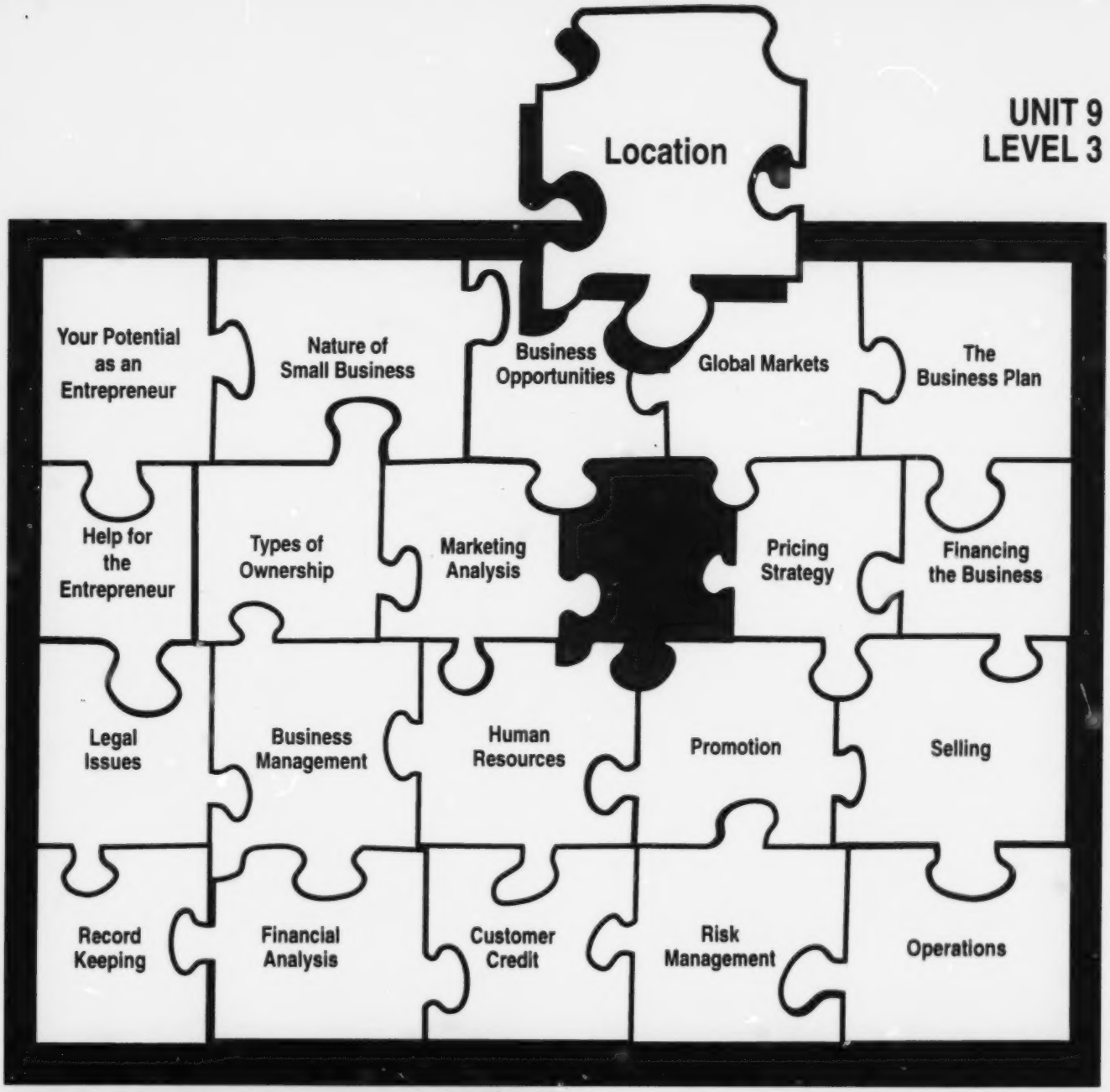
UNIT 9
LEVEL 3



PACE
THIRD EDITION

Program for Acquiring Competence in Entrepreneurship

CENTER ON EDUCATION AND TRAINING FOR EMPLOYMENT
COLLEGE OF EDUCATION
THE OHIO STATE UNIVERSITY

LOCATION

BEFORE YOUR BEGIN . . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.

2. Read What are the Objectives for this Unit on the following page. If you think you can meet these objectives now, consult your instructor.

3. These objectives were met in Level 1 and Level 2:

   Level 1

   - Explain the importance of "place" in the marketing mix.
   - Identify factors that affect site choices.
   - Identify sources of help available for selecting a business site.

   Level 2

   - Determine appropriate business locations.
   - Identify factors to be considered when selecting business sites for specific types of businesses.
   - Determine advantages and disadvantages of different types of business locations.
   - Determine steps involved in selecting a business site.

4. Look for these business terms as you read this unit. If you need help with the meanings, ask your instructor for a copy of the PACE Glossary contained in the *Resource Guide*.

Feasibility study	Renovation/rejuvenation
Lease	Salvage inventory
Overstock	Tax rates
Relocation	Traffic counts

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LOCATION

WHAT ARE THE OBJECTIVES FOR THIS UNIT?

Upon completion of this unit you will be able to—

- select the most appropriate site for your business,
- analyze your business to determine site requirements,
- discuss the importance of site selection factors, and
- explain how to conduct a location feasibility study.

WHAT IS THIS UNIT ABOUT?

The location of a business is a major factor contributing to its success. It is often a decision that is made only once in the lifetime of the firm. However, the dynamic nature of business in our economy requires periodic evaluation of the business location and alternative locations.

The focus of this unit is on the evaluation of business locations. The establishment of strategic planning and operating policies are elements of this focus. Topics include the importance of the business location, general location factors, specific location factors, types of business locations, conducting feasibility study, and assistance available for evaluation and selection of a business site.

HOW IMPORTANT IS THE RIGHT BUSINESS LOCATION?

Studies have indicated that proper location of a business is a major success factor. Customer demand for your products and services is determined to a great extent by the location of the business. Some businesses must be located near the customers. A poor location means you must attract customers by reducing prices, increasing promotions, or by some other costly practice that reduces profits.

Location is an important factor in attracting customers to the business. When evaluating the location of your business, an important consideration is the nature of the business you operate. Although there are general

factors to be considered for locating any business, the relative importance of these factors varies with the type of business operation.

Retail firms. Easy access and traffic patterns are prime considerations of retail establishments. Customers should be able to reach these firms from major roads. Ample parking should be available. Even the different pedestrian traffic patterns within shopping centers are important to owners of retail businesses.

Numerous studies of customer traffic patterns have been conducted for specific types of retail businesses. Anyone evaluating a retail business should examine these accessibility studies. Patterns that contribute to the success of theaters, service stations, drugstores, and apparel shops vary in important ways.

Wholesale firms. Different factors are considered when selecting sites for wholesale establishments. Rail, truck, and air carriers should have easy access. The wholesale establishment should be located near major highways or rail lines. Because of the nature of the facilities, equipment, and fixtures, the number of suitable sites is often limited by zoning laws and permits.

Service firms. Closeness to a shopping center has its advantages for many service businesses, but customers are more prone to seek out and travel farther for some services. For example, customers will often go out of their way to visit a preferred doctor or a car repair shop. Therefore, even among service firms, significant differences exist in the relative importance of the factors to be considered in site locations.

Manufacturing firms have the most restrictive zoning limitations. If you are evaluating a manufacturing site, check into zoning laws, local environmental regulations and concerns, shipping facilities, distance from raw materials, and nearness to the potential market. In addition, be sure that the location you choose will provide you with enough space for all the business operations.

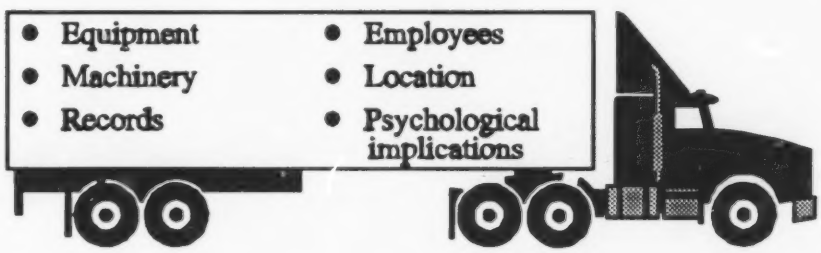
The choice of a business location is one of the most important decisions an owner of a small business makes. Whether this choice means moving or expanding an existing plant, warehouse or office, or opening a new establishment, selecting the location entails long-term decisions. Most businesses make this decision once or at most twice in a business lifetime.

SHOULD A BUSINESS CONSIDER MOVING?

What is also important is how location decisions will affect people who are, or will be your employees. In a move, you should remember that you will have to move not only your equipment, machinery and records, but also most of your employees. You should understand the social, financial and psychological implications of relocation.

Many businesses are successful in one location for years, but due to the static nature of our society in general and of business conditions in particular, periodic evaluations of the current and alternative locations are important. Technological improvements and the mobility of our work force are two examples of changes that can affect the suitability of a particular business site. The

MOVING YOUR BUSINESS? SOME CONSIDERATIONS



decision concerning changing location will affect not only your profits, but the future image of your business. The successful small business owner selects the best location available after considering all the appropriate factors.

WHAT GENERAL FACTORS SHOULD BE CONSIDERED WHEN EVALUATING A BUSINESS LOCATION?

When evaluating the location of a small business, five general factors should be considered: *economic, layout, population, competition,* and *public transportation.* These factors are used to determine an appropriate geographic area or city for the business.

Economic. A major concern in evaluating the location of a small business is the economic base of the area. The type of industry in an area will influence the economic conditions of the region. Agriculture, manufacturing, and commercial trade are major types of industry. The diversification of industry is an important consideration. Some areas are dependent on one industry, whereas, other areas have a balanced variety of business establishments. The future of the area should be studied in terms of the permanency and stability of the economic base.

The industrial base of an area is constantly being affected by numerous forces. The construction of new roads, the rise and fall of labor unions, the infusion of large amounts of money from government contracts or grants, and the availability of adequate venture capital at affordable rates will affect the quality of the industrial base.

A study should be made of the industries in the area and should answer the following questions:

- Are 80 percent of the townspeople dependent on one industry or business for their jobs? Does the community have a diverse number of industries?
- Is industry in the area substantial and permanent? Is it seasonal in nature? Will seasonal jobs in neighborhood areas affect labor availability?
- Are more industries moving in or are many locating elsewhere?
- How strong is the influence of local industry on labor?
- What are the local policies regarding taxes on business and industry? Does the community try to attract new employers from other regions through tax incentives?
- How and to what extent does the community try to attract new employers to the area?

You will need to analyze the impact these industrial conditions will have on your business.

Other economic factors are important when selecting a geographic region. Transportation facilities, natural resources, and tax rates should also be studied.

Population. A third general factor that affects business location is the make-up of the population. Because the income of individuals determines their ability to obtain goods and services, owners of small businesses should gather information about the income patterns of the region. Population trends should be reviewed. The growth, decline, or stability of the population, as well as the standard of living, are items of interest.

Chronological age is another population consideration. Retirement communities will support different products than those purchased in university towns. Age and educational levels will determine the type of labor force available.

Entrepreneurs should gather information about the population around the potential business site. Specific questions to be answered include the following:

- What is the average income of the area?
- Is there a mixture of income levels (low, medium, high) in the area, or is the area predominantly one income level?
- What are the employment/unemployment trends? Is labor force transient or stable?
- Do people own or rent their homes?
- Have changes occurred in the population? If so, what are they?
- What is the quality of life in the area?

Competition. The fourth general factor important to business location concerns the number and type of competitors or potential

competitors. The number of competitors is important because an area can support only a limited number of competing businesses. If too many of the same type of business locate in an area, they may all have limited sales and several firms may not survive.

An entrepreneur can determine if the competition is alert and progressive or just interested in maintaining the status quo by driving through the area and visiting a number of establishments. The presence of chain stores, franchises, and other regional or national firms should be noted. You should know not only how many competitors exist in your sales market, but also where they are located.

Competition is constantly changing. Mergers, failures, and changes in ownership will affect not only the appropriateness of your site, but also may make alternative sites more attractive. You should also find out how many businesses similar to yours have opened or closed in the past two years. In addition, indirect competition providing similar kinds of goods and services should also be analyzed.

Investigating the competition in a geographic area is a vital step in the planning of a business location. The following questions should be answered:

- How large and how successful are the competitors?
- What do the competition's customers think about the products or services offered by the existing establishments?
- What type of management—cooperative or cut-throat—exists in the area?
- If there is little or no competition, why is this the case?
- What is the history of businesses like yours in the area?
- What is the degree and quality of unionization in competitive businesses?

Public transportation. It is important for the prospective community to have a desirable level of passenger transportation facilities for serving employees. You should investigate the public transportation provided by the community for compatibility with your expectations and your employees' needs.

Depending on the type of business, public transportation may or may not be important. If the targeted customer cannot drive or have access to a car, buses and trains should also be considered. In New York City, for example, public transportation is a necessity. Even if the customer drives, there is too much congestion and lack of parking spaces to make cars feasible for transportation.

Layout. When choosing a location you have to consider how you will allocate the space. Decide how much of the available space you will need for office staff and how much for the work-flow of your operations. There might be many creative ways to utilize the available space effectively. For example, office space can be created by using walls made of reconfigurable panel walls. Also, you could remove walls to generate the larger space needed for manufacturing operations. Be sure to consult an architect or engineer before making these changes to avoid damaging the resistance structure of the building.

All these issues are related to layout. Simply defined, *layout* is the physical arrangement you choose for the business to allow workers and equipment to operate at peak effectiveness and efficiency. Layout has three major components: design, space and configuration. (For further information on layout, see the PACE Unit 21, Operations.)

WHAT SPECIFIC FACTORS SHOULD BE CONSIDERED WHEN EVALUATING A BUSINESS SITE?

Once you have analyzed the general factors and have selected a geographic area, you should evaluate the actual business site. Depending on the business you are in, you may need to plan for more than one site. Keep in mind that people are a key factor in choosing a site. The availability of a professional work force is not enough. You will need good transportation facilities to allow your employees to efficiently travel to the location.

The specific considerations vary with the nature of your business. However, you should analyze items concerning competition, traffic flow, transportation, parking, and zoning ordinances when evaluating the site of the business. The relative importance of these factors depends on whether you are considering a retail establishment, manufacturing firm, wholesale firm, or service business.

Retail firms. The success of a retail store is ultimately tied to its ability to attract customers. The store must be located near its potential customers. The type of goods or services you sell will determine how close you should be to your customers. Stores that sell convenience goods, such as candy and cigarettes, need to be located in high-traffic areas. Businesses selling durable goods, such as appliances and furniture, can be successful on secondary streets. Customers will make some effort to search them out. Specialty goods, such as jewelry or health foods, can be sold by stores "off the beaten path." In these cases, the consumer will spend the time needed to find and buy the product or service.

The compatibility of neighboring stores is another consideration. In addition, some stores will not draw enough customers alone, so they should locate near stores that draw a similar clientele. Some stores are incompatible as neighbors. Studies have shown that clothing stores and service stations are not compatible neighbors.

Customers should face few problems in reaching your store. In evaluating locations, consider parking facilities, public transportation, and the volume of pedestrian and automobile traffic. Many entrepreneurs conduct a traffic study to determine the number and types of persons traveling a certain area of town.

You should consider several other factors. Zoning and other local ordinances the cost of the site, and the general appearance of the area surrounding the site are also important.

Wholesale firms. These businesses sell to retailers or other wholesalers within the area. Prosperous retailers, a growing population, and a broad economic base are positive factors. When evaluating the alternative sites of the wholesale firm, accessibility to major highways or rail lines, local ordinances, and

the cost of the site are important. Space for expansion and the quality of local services, such as fire protection and utilities, should also be studied.

In many areas, an old established wholesaling district may meet the needs of the firm. Recently, many wholesalers have located on the outskirts of towns near the interchanges of major thoroughfares. Careful analysis of location factors is necessary to choose the right location.

Service firms. The location factors for a service firm are similar to those considered in locating a retail firm. Some services such as beauty salons or dental clinics require the customer to be present. Other services such as pest control or janitorial services are provided on the customers' premise. A location near its customer is most important for the first type of business, but not so for the second.

Manufacturing firms. Site location for small factories requires the analysis of many of the factors discussed for other types of businesses. Access to the market, transportation facilities, community services, and potential for expansion have been mentioned earlier. Additional factors for small manufacturers include the quantity and quality of the labor supply, availability and access to raw materials, energy and fuel, and community attitudes toward the business.

A careful analysis of these many factors is necessary for the selection of the proper factory site. The right site will minimize many of the problems faced by small manufacturers.

No matter what type of business you operate, the basic issues regarding location must be studied. In addition to the specific factors important in site selection, a number of other factors may relate to your business. The following questions will guide you in studying a community.

- What is the newspaper circulation? Are there concentrations of circulation?
- What other media are available for advertising? How many radio and television stations are there?
- Are quantity and quality of available labor concentrated in a given area in the city or town? If so, is commuting common in that city or town? What are the worker attitudes and ethics? Does labor workforce have deep community roots?
- Is transportation available and adequate? Are transportation costs high?
- Is the city centrally located to your suppliers?
- What are the labor conditions, including such things as relationships with the business community, average wages, and salaries being paid?
- Is the local business climate healthy? Or are business failures especially high in the area? What is the range of construction costs in the area?
- What about tax requirements? Is there a city business tax? Income tax? What is the property tax rate? Is there a personal

property tax? Are there other special taxes?

- Is the available police and fire protection adequate?

- What is the community environment like? Is it a safe or a high-crime rate area? Do the schools have a good reputation? What recreational and cultural facilities are available? Are there service clubs? How active are these groups?

- Is the city or town basically well-planned and managed in terms of such items as adequate electric power, sewage, and paved streets and sidewalks? Does the community offer a diversified range of services required by the industry such as repair and maintenance shops, or freight and postal services? Are there plenty of subcontractors—architects, engineers, carpenters, painters—available? Have you consulted an independent contractors and employees guide at your local library?

- Is there ready access to good-quality housing at convenient prices?

- Can you develop close personal relationships in the business community you will need in the future?

As you evaluate alternative business locations, it is important to consider future developments. Most information concerning general and specific location factors deals with past or present conditions. Today's society moves at a rapid pace. Electrical-mechanical cash registers have been replaced by electronic and computerized models almost overnight. The use of computers in small businesses is growing with breath-taking speed. To be successful, it helps to be future-oriented.

As you gather information on alternative business locations, be sure to ask for future development plans. Many state and local government agencies have planning departments. The historical data you collect is also valuable. Study it closely to determine if trends are developing. With this information about future developments and trends, you will be prepared to make reasonable forecasts. Forecasts of 3 to 5 years are common and can be made with some confidence depending on the quality of the data.

Remember, you are concerned not only with the future of the area, but also with the future of your business. The locations you study should be evaluated with a successful business in mind. Will the location support an expansion of your business? What is the right size of the business? Keep in mind that the future of your business is an important consideration when selecting a business location.

WHAT TYPES OF BUSINESS LOCATIONS ARE THERE?

As you proceed in evaluating alternative business locations, you will note that businesses tend to form clusters. This occurs because many factors, both specific and general, influence why a business selects a specific site. There are two types of business locations—*natural* and *planned*. Natural clusters are formed to serve a specific population within a geographic area. They

form to take advantage of a market that has already been established by other small businesses. For example, in an area near a new housing development, there is a recently built, all-purpose megastore. To take advantage of the traffic brought to the area by the megastore, other businesses such as fast-food restaurants, dry cleaners, or service stations move nearby.

The intent of planned clusters is to spread the cost of operations, such as advertising, maintenance, leasing and land development, among many businesses. Examples of planned clusters are shopping centers and industrial parks. Firms will cluster into one of the following types of locations:

- Central shopping center
- Neighborhood shopping areas
- Shopping centers
- Industrial parks
- Factory outlet malls
- Miniwarehouse malls
- Office complexes
- Business incubators
- Executive suites
- Home-based businesses

Central shopping districts. These are the main shopping districts in a city or town. They are generally located on the main thoroughfare and often include several city blocks. Government offices, financial institutions, and professional offices provide a market for the central shopping districts' retail and service establishments.

All types of consumer goods and services are available in this type of shopping location. Major department stores, such as Sears, or K-Mart provide the drawing power. In addition, theaters, restaurants, and specialty stores sell a variety of shopping goods and increase the customer traffic. These retail businesses usually have advertisement programs of their own which attract customers from a large trading area.

Neighborhood shopping areas. These clusters attempt to locate in high-population areas and can be developed quickly to take advantage of growth areas.

Small branch stores of major department store chains, grocery stores, fast-food establishments, gas stations, bakeries, hardware stores, shoe stores, and beverage stores often locate in these areas.

These stores usually share many advantages such as lower space and operating cost, repeat business, and a well-balanced assortment of stores that lure customers from the area.

Shopping centers. These planned business clusters have grown with the increased use of the automobile. Shopping centers are usually located on the outskirts of a city or town, often near a major highway. The three basic types of shopping centers are *neighborhood*, *community*, and *regional*.

- *Neighborhood shopping centers* are designed to serve a trading area within close proximity of approximately a 5-mile radius. If the stores are proximately aligned, they are often referred to as *strip centers*. A supermarket or chain department store is often the largest store in the center. The remaining stores in

the center will sell convenience sundry goods and services.

- *Community shopping centers* attract customers willing to drive a short distance of approximately 20 minutes to the center. Most community shopping centers are open-air, as opposed to enclosed malls. Very often a major department store, such as K-Mart or JC Penney, is the primary business. This major retailer will serve to attract customers to the other stores in the center. The community center offers convenience goods and a wide selection of shopping goods, along with specialty services. Drugstores, hardware stores, dry cleaners, and laundromats are also located in these centers.

- *Regional Shopping Centers* are mixed-use facilities. Usually, these centers are enclosed malls and have at least two major department stores as the primary customer attraction. Customers will often drive 40 minutes or more to a regional center. A wide range of services, convenience goods, clothing, etc. are available. Chain stores, franchise outlets, banks, restaurants, offices, movie theaters, and sometimes hotels will typically predominate a regional center.

All types of shopping centers rely on their ability to attract customers. This drawing power is enhanced by a *planned tenant mix, pooled advertising and promotion programs*, and *ample parking*. Shopping centers attempt to create an attractive and appealing overall atmosphere. Promotional events, such as new car shows, flower shows, and product introductions are used to attract even more potential customers.

Due to high overhead, the rental/lease cost in a shopping center is usually high. Since most stores are required to maintain uniform hours, you will sacrifice a degree of independence. Your advertisement and promotional programs will be coordinated by the center's decision-making group. Maintenance costs of the center can be extensive and are divided among tenant stores.

Industrial parks. Industrial parks are the manufacturing and wholesaling equivalent of retail shopping centers. Industrial developers provide location factors most sought after by manufacturers and wholesalers.

These parks are most often located on the outskirts of towns and cities, where rental space is more affordable. It is necessary that major highways and/or rail lines be located close by or run through the park in order to provide efficient supply access. Utility hookups for industrial use are provided, and many areas offer tax savings to businesses that locate in the parks.

Factory outlet malls. Discount and factory outlet stores carrying traditional manufacturers' brands locate in factory outlet malls. Many manufacturers operate their own outlet stores to move overstock or salvage inventory. The manufacturer, as owner of the outlets, usually makes a special effort to avoid conflict with traditional retailers of their own products. These outlet malls are usually located outside the metropolitan area.

Miniwarehouse malls. Miniwarehouse malls are loosely planned centers that sell space to wholesalers, light manufacturers or retailers that operate out of warehouse areas. Unlike traditional planned centers, this type of center does not usually have coordinated promotional programs or store mix.

Office complexes. Traditionally, these are comprised of offices located in one or a series of offices that extends vertically or horizontally. Examples would include small accounting or tax firms, real estate companies, medical offices, and temporary services. These complexes are usually located within municipal downtown or suburban areas.

Business incubators. These are places where business start-ups can develop and grow in a protected environment. The renting/leasing costs are lower, and central services are provided, such as telephone answering, secretarial, mailing, consulting, and tax services. The business incubator cuts down on start-up overhead. As the business grows, there comes a time when the business must leave the incubator and operate on its own. The limit of time spent in an incubator is usually limited to about three years.

Executive suites. Executive suites are facilities where manufacturers' representatives and other independents in the distribution channel may maintain an office. The advantages are an office address, telephone answering services, a meeting place, furnishings, and other office services. Executive suites are an alternative to doing business out of your home.

Home-based business. The number of home-based businesses continues to grow. At times, the cost of doing business can be reduced drastically, making it a viable way to "get started." In many cases there is no need to expand out of the home. Consider the home situation, type of business, expenses, and practicality when determining the wisdom of "growing the business" at home.

Zoning ordinances, state and federal laws must be checked thoroughly. What is not known about zoning regulations could put the new business owner out of business. Some home business owners who have fought for the right to work in their own homes have obtained special permits or zoning variances. Other home business owners have gone to court to defend their position and lost. Zoning ordinances affect all business. It is critical that you investigate how they specifically influence your own business.

The problem is that most zoning laws were written in the horse-and-buggy days. It may be useful to organize home-based workers in an area and fight for changes in the zoning laws. In 1985, the *National Alliance of Home-Based Business Women (NAHB)* circulated its model zoning regulations to help members of local zoning and planning commissions to make necessary changes in outdated laws. For $2, the NAHB will provide a copy of these regulations. The address is P.O. Box 306, Midland Park, NJ 07432.

HOW SHOULD A FEASIBILITY STUDY BE CONDUCTED?

When evaluating your current and alternative locations, two major concerns are market potential and availability of suitable premises. The following process is suggested for conducting a feasibility study:

1. **Select a general area for consideration.** Using personal information gathered from your experience and the knowledge of current business conditions, select two

or three broad geographic areas that might have potential for a business of your type. Be sure to include the geographic area surrounding your present location. These regions can be as large as an entire state.

Decide if you will benefit from large metropolitan areas or suburbs or small cities and towns. Should you choose a new city as your general area, or should you target an established, well-developed urban area?

2. **Survey several areas within a state.** As you consider general areas for business locations, several promising areas will probably surface. These will provide you with areas within the state to be surveyed to gather information on economic, population, and competitive conditions. Market characteristics, such as the income, occupation, and education of the population, should be gathered. The permanency of the population and type of housing in the area should be determined. Factors such as availability of labor, market proximity, and transportation are also important.

3. **Establish site selection criteria.** After one or two areas have been identified as promising, the evaluation of the market potential of specific sites within those areas should begin. Criteria for rating each site should be established at this time. The nature of your business—retail, wholesale, service, or manufacturing—will determine the specific criteria chosen. Several of the items listed below should be considered:

- Competition in the trading area
- Compatibility of neighboring businesses
- Neighborhood atmosphere
- Site history
- Accessibility
- Single or multiple occupancy options
- Real estate taxation
- Traffic volume and type
- Zoning restrictions
- Costs involved with meetings and maintaining the Occupational Safety and Health Administration (OSHA) requirements.

The first three steps in this feasibility study are conducted to evaluate the market potential of various business sites. By carefully analyzing the information gathered in these first steps, two or three promising sites should emerge. The second phase of the feasibility study involves an analysis of factors in adapting or acquiring suitable premises.

4. **Analyze the need to build, renovate or redecorate.** You might have identified the present site of your business as suitable for your needs. However, during your analysis of market potential you may have uncovered a need to make renovations to your property. These

changes may be renovating a facade, improving the parking lot, or changing the signs. This process is often called *rejuvenation* or *redevelopment*, and its purpose is to improve the image of your business. If you decide that the present business site is not appropriate for your present and future needs, you must then decide whether you want to build a new structure or move to another location, or renovate.

There are several *advantages* in building or renovating a structure. The building can be designed to fit your particular needs. In addition, a new or renovated building is appealing to customers, and projects the image of a progressive management. Also, tax advantages from depreciation allowances and investment tax credits are possible. Finally, you will be able to obtain money in the future by borrowing on the equity of the building you own.

There are also *disadvantages* to building and renovating. The time it takes to build or renovate your structure will probably have an adverse affect your sales. Besides the time factor, acquisition of sufficient capital is also a major problem. Major construction, renovation, and redecoration projects involve many problems. Selecting dependable contractors is of great importance. It is wise to consult an independent contractors guide at your local library before making any decision. Both new construction and renovation are expensive projects. Most entrepreneurs must acquire outside financing that is costly, and at times, hard to obtain.

Before making your decision, you should take time to respond to the following questions to better assess costs associated with renovation of your business:

- How much time will it take to renovate the business?
- How much will your profits decrease during this period due to loss of sales?
- What will be the labor and material costs incurred?
- If you need to borrow money, will you be able to pay it back?
- How much will the depreciation allowances and tax credits help you?
- What will be the costs associated with city building permits and architectural fees?

Determining the costs of building or renovating is a major task. Building permits and architectural fees may be necessary. The costs of materials, fixtures, and equipment must be carefully reviewed to obtain the best price. Labor costs can be substantial, so it is important to hire competent contractors. The loss of sales during a renovation is a cost that is often overlooked. Planning is very important in these projects to ensure that unaccounted costs do not make the project more expensive than originally anticipated.

5. **Analyze the need to lease.** Leasing a building is a common practice among business owners. When considering a lease, think about these points:

- How much rent will you have to pay? Will the rental fee be a flat fee or will it be a percentage of sales?

- Does the owner restrict the use of parts of the facility, such as storage rooms?

- Does the owner restrict the use of the property to only certain activities? This may become important should you decide, for example, to conduct cooking classes in your shop in addition to selling kitchen equipment.

- Who is responsible for maintenance? Is a maintenance fee charged?

- Should any improvements be made? If so, to whom do the additions belong? Who decides what improvements can be made?

- Could you sublease the property? If so, are there restrictions?

- What provisions are stated in the lease for renewal? Is renewal guaranteed as long as the lease agreement is followed?

- What types of insurance does the owner have? How much fire insurance does the owner have, and what does it cover? Are you required to have certain types of insurance?

- How long is the lease? Can it be canceled before it expires? Under what conditions can it be canceled?

These and other considerations should be specified in the lease agreement. Many potential problems can be resolved if the lease is properly drawn and executed.

6. **Review your analyses and decide.** After conducting all the appropriate steps in the feasibility study, you should carefully review your analysis of each site. Compare the ratings with a perspective of the future. Which site is the most appropriate for you now, in 5 years, and in 10 years? Although you have used a rating scale, your decision must be made with less objective data than you may like. In today's business conditions, planning a year in advance is risky, and 10 years in advance is almost pure speculation. But the assessment of future conditions may make the difference between selecting a good site and an excellent site.

WHAT HELP IS AVAILABLE FOR EVALUATING A BUSINESS LOCATION?

You should select your business location as a result of study and planning—not a hunch. Selecting the correct site is a complex task requiring an extensive analysis of many factors. As previously discussed, these factors relate to the type of business, customers served, and types of goods and services sold. Therefore, conducting a comprehensive feasibility study is very important. In addition to conducting your own research, a great deal of free or inexpensive information is available, and many organizations are willing to assist in conducting the study.

An important step in conducting the study of a business location is assembling appropriate data. The government is a valuable source of information and publishes the following items which can assist in conducting a preliminary feasibility study:

- *Statistical Abstract of the United States.* This annual publication includes national demographic data on such items as population and income.

- *County and City Data Book.* Data for any city or county with a population over 25,000 are included in this source. Also in this book is information concerning the number of businesses, number of families, number of multifamily and single-family housing units, and average income.

- *The Survey of Current Business.* A useful monthly publication that includes monthly sales volume for various products and services, economic information (including unemployment data), and articles on subjects such as changes in consumer buying habits.

- *The U.S. Census Bureau.* This is a valuable source of data for small businesses that need help in evaluating locations. You should use this source in the first phase of the feasibility study when you need data about a specific area in the country.

- An additional source of information is provided by the "Survey of Buying Power," published yearly by *Sales and Marketing Management* magazine. This survey includes data on individual and family purchasing power for metropolitan areas of the United States.

Once a preliminary study has been conducted, additional information and assistance can be obtained from a variety of organizations. Some of these organizations will have economic survey results and other data such as traffic counts. Some agencies will also be willing to help you conduct your study by providing guidance or even doing some of the collection and analysis of the information. You might wish to contact the following agencies to obtain their services:

- Small Business Administration
- National or local chamber of commerce
- Trade associations (such as the National Retail Merchants Association)
- Planning commissions
- Manufacturers and wholesalers
- Neighboring businesses
- Bankers
- Consultants
- Local colleges

Once you have gathered sufficient data, the actual site comparison process can begin. The entrepreneur can conduct the study, or employ the use of outside professionals. Many professional area development groups provide their services free of charge. These

groups are generally one of three types: government agencies, civic organizations, or private corporations. The services provided include the following:

- Information such as wage and tax rates
- Contacts with influential and knowledgeable people
- Financial assistance arrangements for loans, grants, and bonds
- Projections of economic potential
- Advice from professional industrial realtors

Most states have economic development agencies, as do many local areas. For more information regarding these agencies, contact:

- National Association of State Development Agencies
  Hall of State, Suite 116
  444 North Capital Street, N.W.
  Washington, DC 20001

or

- American Economic Development Council
  1207 Grand Avenue, Suite 845
  Kansas City, MO 64108

Evaluating and comparing business locations requires the review of many factors. Information for and assistance in evaluating business locations is abundant. An entrepreneur should use these resources in a reasonable, methodical way. The success or failure of a business may very well depend on its location decision.

ACTIVITIES

The following activities are designed to help you apply what you have learned in this unit.

INDIVIDUAL ACTIVITIES

A.

Using at least two business sites, conduct a traffic count to determine the accessibility of the sites. Owners of retail and service institutions should look for their type of customers, whereas wholesalers and manufacturers should be concerned with commercial traffic. Before the count begins, determine when—the time of day, week, or month—you are going to count, and the type of traffic—pedestrian, vehicular, or both—to be counted. Prepare a summary of your findings.

B.

Examine an existing business location for its renovating needs or projects to improve the business site. Interview a number of employees, suppliers, and customers for their ideas. Compile a list of improvement projects, including the costs of materials, labor, and other expenses.

C.

If you own a business now, review the lease for your premises carefully. List any questions or concerns you may have. What items would you like to have included in the lease that are not present now? Review the lease with a lawyer to learn your full rights under the laws of your state. Prepare a revised occupancy contract to discuss with your landlord.

GROUP ACTIVITIES

A.

If you are not already, assume you are an entrepreneur. Ask two small business owners to meet and discuss the possibility of conducting a preliminary feasibility study of your business locations. Each of you should take one of the general factors—economics, population, competition, public transportation, layout—and acquire information to share with the other two. After the general factors have been considered, each person can then conduct a study of the specific factors affecting their particular business. Information sources should be shared with one another as the studies progress.

B.

In teams of four to six, study the opportunities available in your town for one of the group's business ideas. Choose the three best options and identify the costs of renovation, redecoration or adaptation necessary for each. Discuss the impact of these costs on the group's business ideas.

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CASE STUDY

Farm life is what Ted Sizemore enjoys. He has been working the family farm on his own for 15 years. He has seen a lot of changes in farming and in the area. More and more of his friends have been selling their small farms and going to work in the factories in town, 10 minutes away.

Ted must admit that the living at his small farm is not what it used to be, and he has considered making the same move as his friends. But just the thought of being cooped up all day and pushing a time clock makes him miserable. Besides, the income he is getting from the small nursery and garden center on the farm is approaching the amount of his farm income, and it uses much smaller acreage.

Ted manages the care of the plants, trees, and shrubs, while his wife, Susan, is in charge of customer orders and finances. Susan believes the potential of this business is great, and has been encouraging Ted to quit farming, expand the nursery, and open a retail center either in the nearby town or in a city 35 miles to the south.

Ted is interested. He has spent some time analyzing conditions in the town and city. The town has a population of 5,000 and is the county seat and major retail area in the county. The Sizemore farm is just 4 miles from town on a main U.S. route. The Sizemores have many friends in the area, several who have purchased items from the nursery. With the decline in the number of small farms, light industry employs most people in the county. One of their friends, a farm implement dealer, has offered them half the square footage of his premises and outside display area on a lease basis, with very good terms. The dealer's business has declined with the demise of the small farms in the area. He is hoping that the Sizemores' new business would attract new customers to his business.

Ted and Susan also located an existing garden center in the city of 50,000 just 35 miles south of their farm. The garden center is now vacant, but with minor renovations to the structure and a sprucing up of the three acres, it would be very suitable for their needs. The largest manufacturer in the city has just announced the transfer of their facilities to a location in Alabama. Approximately 3,000 persons will become unemployed. The remaining industrial concerns are financially sound, although not prospering.

Ted and Susan have come to you. They have just about decided to get into the nursery and garden center business full time. However, they have questions concerning the location of the business.

DISCUSSION QUESTIONS

1. Should they try to operate from their farm, the town, or the city?
2. What factors should be considered at each location? Are there general factors for all locations? Are there specific factors?
3. How should they investigate their possibilities?

ASSESSMENT

Read the following questions to check your knowledge of the topics presented in this unit. When you feel prepared, ask your instructor to assess your competency on them.

1. List and explain at least two factors that demonstrate the importance of business location.
2. List the factors to be reviewed when evaluating a business location. Explain two of them.
3. What information about a community should be gathered before selecting a business location?
4. What is the difference between a factory outlet mall and a miniwarehouse mall?
5. Explain how a feasibility study should be conducted.

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PACE

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Units on the above entrepreneurship topics are available at the following levels:

* Level 1 helps you understand the creation and operation of a business
* Level 2 prepares you to plan for a business in your future
* Level 3 guides you in starting and managing your own business